

**REPORT OF THE AUDIT OF THE  
TUCKER GUTHRIE AIRPORT BOARD  
A COMPONENT UNIT OF THE  
HARLAN COUNTY FISCAL COURT**

**For The Fiscal Year Ended  
June 30, 2009**



**CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS  
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## **EXECUTIVE SUMMARY**

### **AUDIT EXAMINATION OF THE TUCKER GUTHRIE AIRPORT BOARD**

**June 30, 2009**

The Auditor of Public Accounts has completed the audit of the Tucker Guthrie Airport Board (Airport Board), a component unit of the Harlan County Fiscal Court, for fiscal year ended June 30, 2009.

We have issued unqualified opinions, based on our audit, on the governmental activities and major fund of the Airport Board.

#### **Financial Condition:**

The Airport Board had net assets of \$1,084,688 as of June 30, 2009. The Airport Board had unrestricted net assets of \$ 8,438 in its governmental fund as of June 30, 2009.

#### **Report Comments:**

- 2009-1 The Airport Board Should Comply With The Uniform System Of Accounts
- 2009-2 The Airport Board Lacks Adequate Segregation Of Duties
- 2009-3 The Airport Board Should Prepare A Policies And Procedures Manual
- 2009-4 The Airport Board Should Prepare And Submit A Budget To The Fiscal Court For Approval
- 2009-5 The Airport Board Should Present An Annual Accounting To The Fiscal Court
- 2009-6 Invoices Of The Airport Board Lack Evidence Of Proper Approval

#### **Deposits:**

The Airport Board's deposits were insured and bank balances did not exceed FDIC coverage during the fiscal year 2009.



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**CRIT LUALLEN**  
**AUDITOR OF PUBLIC ACCOUNTS**

Honorable Mark Miracle, Tucker Guthrie Airport Board Chairman  
Members of the Tucker Guthrie Airport Board  
Members of the Harlan County Fiscal Court

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities and major fund of the Tucker Guthrie Airport Board (Airport Board), a component unit of the Harlan County Fiscal Court, as of and for the year ended June 30, 2009, which collectively comprise the Airport Board's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Airport Board. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, the Airport Board prepares its financial statements in accordance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and major fund of the Airport Board as of June 30, 2009, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with the basis of accounting described in Note 1.

The Airport Board has not presented the management's discussion and analysis that the Governmental Accounting Standards Board (GASB) has determined is necessary to supplement, although not required to be part of, the basic financial statements. The budgetary comparison information is not a required part of the basic financial statements but is supplementary information required by GASB. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the budgetary comparison information. However, we did not audit it and express no opinion on it.

In accordance with Government Auditing Standards, we have also issued our report dated February 18, 2011, on our consideration of the Airport Board's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant



Honorable Mark Miracle, Tucker Guthrie Airport Board Chairman  
Members of the Tucker Guthrie Airport Board  
Members of the Harlan County Fiscal Court

agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Based on the results of our audit, we present the accompanying comments and recommendations included herein, which discusses the following report comments:

- 2009-1 The Airport Board Should Comply With The Uniform System Of Accounts
- 2009-2 The Airport Board Lacks Adequate Segregation Of Duties
- 2009-3 The Airport Board Should Prepare A Policies And Procedures Manual
- 2009-4 The Airport Board Should Prepare And Submit A Budget To The Fiscal Court For Approval
- 2009-5 The Airport Board Should Present An Annual Accounting To The Fiscal Court
- 2009-6 Invoices Of The Airport Board Lack Evidence Of Proper Approval

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a stylized, flowing script.

Crit Luallen  
Auditor of Public Accounts

February 18, 2011



**TUCKER GUTHRIE AIRPORT BOARD**  
**STATEMENT OF NET ASSETS - MODIFIED CASH BASIS**

**June 30, 2009**



**TUCKER GUTHRIE AIRPORT BOARD**  
**STATEMENT OF NET ASSETS - MODIFIED CASH BASIS**

**June 30, 2009**

	<u>Primary Government</u> <u>Governmental</u> <u>Activities</u>
<b>ASSETS</b>	
Current Assets:	
Cash and Cash Equivalents	\$ 8,438
Total Current Assets	<u>8,438</u>
Noncurrent Assets:	
Capital Assets - Net of Accumulated Depreciation	
Land and Land Improvements	458,524
Buildings	391,700
Other Land Improvements	<u>226,026</u>
Total Noncurrent Assets	<u>1,076,250</u>
Total Assets	<u>1,084,688</u>
<b>NET ASSETS</b>	
Invested in Capital Assets	1,076,250
Unrestricted	<u>8,438</u>
Total Net Assets	<u><u>\$ 1,084,688</u></u>

The accompanying notes are an integral part of the financial statements.

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**TUCKER GUTHRIE AIRPORT BOARD**  
**STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2009**



**TUCKER GUTHRIE AIRPORT BOARD**  
**STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2009**

<b>Functions/Programs Reporting Entity</b>	<b>Expenses</b>	<b>Program Revenues Received</b>		<b>Net (Expenses) Revenues and Changes in Net Assets</b>
		<b>Charges for Services</b>	<b>Operating Grants and Contributions</b>	<b>Primary Government</b>
<b>Primary Government:</b>				
Governmental Activities:				
Airports	\$ 123,959	\$ 17,861	\$ 79,666	\$ (26,432)
Total Governmental Activities	123,959	17,861	79,666	(26,432)
		Change in Net Assets		(26,432)
		Net Assets - Beginning (Restated)		1,111,120
		Net Assets - Ending		\$ 1,084,688

The accompanying notes are an integral part of the financial statements.

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**TUCKER GUTHRIE AIRPORT BOARD**  
**BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**

**June 30, 2009**



**TUCKER GUTHRIE AIRPORT BOARD**  
**BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**

**June 30, 2009**

	<u><b>General Fund</b></u>
<b>ASSETS</b>	
Cash and Cash Equivalents	\$ 8,438
Total Assets	<u>8,438</u>
<b>FUND BALANCES</b>	
Unreserved:	
General Fund	<u>8,438</u>
Total Fund Balance	<u>\$ 8,438</u>

**Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets:**

Total Fund Balances	\$ 8,438
Amounts Reported For Governmental Activities In The Statement Of Net Assets Are Different Because:	
Capital Assets Used in Governmental Activities Are Not Financial Resources And Therefore Are Not Reported in the Funds.	1,118,788
Accumulated Depreciation	<u>(42,538)</u>
Net Assets Of Governmental Activities	<u>\$ 1,084,688</u>

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**TUCKER GUTHRIE AIRPORT BOARD**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2009**



**TUCKER GUTHRIE AIRPORT BOARD**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2009**

	<u>General Fund</u>
<b>REVENUES</b>	
Intergovernmental	\$ 79,666
Charges for Services	<u>17,861</u>
Total Revenues	<u>97,527</u>
<b>EXPENDITURES</b>	
Current:	
Airports	<u>102,690</u>
Total Expenditures	<u>102,690</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(5,163)</u>
Net Change in Fund Balances	(5,163)
Fund Balances - Beginning	<u>13,601</u>
Fund Balances - Ending	<u><u>\$ 8,438</u></u>

The accompanying notes are an integral part of the financial statements.

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**TUCKER GUTHRIE AIRPORT BOARD  
RECONCILIATION OF THE STATEMENT OF REVENUES,  
EXPENDITURES, AND CHANGES IN FUND BALANCES OF  
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2009**



**TUCKER GUTHRIE AIRPORT BOARD  
RECONCILIATION OF THE STATEMENT OF REVENUES,  
EXPENDITURES, AND CHANGES IN FUND BALANCES OF  
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2009**

Net Change in Fund Balances - Total Governmental Funds	\$ (5,163)
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Amounts reported for governmental activities in the Statement of Activities are different because Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets are allocated over their estimated useful lives and reported as depreciation expense.

Depreciation Expense	(21,269)
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Change in Net Assets of Governmental Activities	<div style="border-top: 1px solid black; border-bottom: 3px double black; display: inline-block; padding: 2px 10px;">\$ (26,432)</div>
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**INDEX FOR NOTES  
TO THE FINANCIAL STATEMENTS**

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**TUCKER GUTHRIE AIRPORT BOARD**  
**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2009**

**Note 1. Summary of Significant Accounting Policies**

**A. Basis of Presentation**

The Airport Board presents its government-wide and fund financial statements in accordance with a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Notes receivable are recognized on the Statement of Net Assets, but notes receivable are not included and recognized on Balance Sheet - Governmental Funds. Property tax receivables, accounts payable, compensated absences, and donated assets are not reflected in the financial statements.

Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance (Reserved for Encumbrances).

The State Local Finance Officer does not require the Airport Board to report capital assets and infrastructure; however the value of these assets is included in the Statement of Net Assets and the corresponding depreciation expense is included on the Statement of Activities.

**B. Reporting Entity**

The Tucker Guthrie Airport Board is a component unit of the Harlan County Fiscal Court. The financial statements of the airport board include the funds, agencies, boards, and entities for which the Airport Board is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14 and GASB 39, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Consequently, the reporting entity includes organizations that are legally separate from the primary government. Legally separate organizations are reported as component units if either the Airport Board is financially accountable or the organization's exclusion would cause the Airport Board's financial statements to be misleading or incomplete. Component units may be blended or discretely presented. Blended component units either provide their services exclusively or almost entirely to the primary government, or their governing bodies are substantively the same as the primary government. All other component units are discretely presented.

**C. Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its non-fiduciary component units. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on sales, fees, and charges for support. Business-type revenues come mostly from fees charged to external parties for goods or services. Fiduciary funds are not included in these financial statements due to the unavailability of fiduciary funds to aid in the support of government programs.

The statement of net assets presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net assets. Net assets are reported in three categories: 1) invested in capital assets, net of related debt - consisting of capital assets, net of accumulated depreciation and reduced by

**TUCKER GUTHRIE AIRPORT BOARD**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 200909**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**C. Government-wide and Fund Financial Statements (Continued)**

outstanding balances for debt related to the acquisition, construction, or improvement of those assets; 2) restricted net assets - resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation; and 3) unrestricted net assets - those assets that do not meet the definition of restricted net assets or invested in capital assets.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; 2) operating grants and contributions; and 3) capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internally dedicated resources such as taxes and unrestricted state funds are reported as general revenues.

Generally and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) November 1, due at discount November 30, due at face value December 31, delinquent January 1 following the assessment, and subject to sale ninety days following April 15.

Funds are characterized as either major or non-major. Major funds are those whose assets, liabilities, revenues, or expenditures/expenses are at least ten percent of the corresponding total (assets, liabilities, etc.) for all funds or type (governmental or proprietary) and whose total assets, liabilities, revenues, or expenditures/expenses are at least five percent of the corresponding total for all governmental and enterprise funds combined. The Airport Board may also designate any fund as major.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds. Major individual governmental funds and major enterprise funds are reported as separate columns in the financial statements.

**Governmental Funds**

The primary government reports the following major governmental fund:

General Fund - This is the primary operating fund of the fiscal court. It accounts for all financial resources of the general government, except where the Department for Local Government requires a separate fund or where management requires that a separate fund be used for some function.

**D. Deposits and Investments**

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition.

KRS 66.480 authorizes the airport board to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by

**TUCKER GUTHRIE AIRPORT BOARD**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 200909**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**D. Deposits and Investments (Continued)**

the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

**E. Capital Assets**

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported in the applicable governmental or business-type activities of the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land and Construction In Progress are not depreciated. Interest incurred during construction is not capitalized. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset.

	Capitalization Threshold	Useful Life (Years)
Land Improvements	\$ 25,000	10-60
Buildings and Building Improvements	\$ 50,000	10-75
Machinery and Equipment	\$ 5,000	3-25
Vehicles	\$ 5,000	5

**F. Fund Equity**

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into reserved and unreserved components, with unreserved considered available for new spending. Unreserved fund balances may be divided into designated and undesignated portions. Designations represent fiscal court's intended use of the resources and should reflect actual plans approved by the Airport Board

Governmental funds report reservations of fund balance for amounts that are legally restricted by outside parties for use for a specific purpose, long-term receivables, and encumbrances.

"Reserved for Encumbrances" are purchase orders that will be fulfilled in a subsequent fiscal period. Although the purchase order or contract creates a legal commitment, the Airport Board incurs no liability until performance has occurred on the part of the party with whom the Airport Board has entered into the arrangement. When a government intends to honor outstanding commitments in subsequent periods, such amounts are encumbered. Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however, encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance.

**TUCKER GUTHRIE AIRPORT BOARD**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 200909**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**G. Budgetary Information**

The Airport Board did not submit an annual budget to the fiscal court.

**Note 2. Deposits and Investments**

**A. Deposits**

The primary government maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(D).. According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were not met.

**Custodial Credit Risk - Deposits**

Custodial credit risk is the risk that in the event of a depository institution failure, the government's deposits may not be returned. The government does not have a deposit policy for custodial credit risk, but rather follows the requirements of KRS 41.240 (4). As of June 30, 2009, all deposits were covered by FDIC insurance.

**Note 3. Capital Assets**

Capital asset activity for the year ended June 30, 2009 was as follows:

	Reporting Entity			
	Beginning Balance	Increases	Decreases	Ending Balance
<b>Primary Government:</b>				
<u>Governmental Activities:</u>				
Capital Assets Not Being Depreciated:				
Land and Land Improvements	\$ 458,524	\$	\$	\$ 458,524
Total Capital Assets Not Being Depreciated	458,524			458,524
Capital Assets, Being Depreciated:				
Buildings	416,702			416,702
Other Land Improvements	243,562			243,562
Total Capital Assets Being Depreciated	660,264			660,264
Less Accumulated Depreciation For:				
Buildings	(12,501)	(12,501)		(25,002)
Other Land Improvements	(8,768)	(8,768)		(17,536)
Total Accumulated Depreciation	(21,269)	(21,269)		(42,538)
Total Capital Assets, Being Depreciated, Net	638,995	(21,269)		617,726
Governmental Activities Capital Assets, Net	\$ 1,097,519	\$ (21,269)	\$ 0	\$ 1,076,250



**TUCKER GUTHRIE AIRPORT BOARD**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2009**  
**(Continued)**

**Note 3. Capital Assets (Continued)**

Depreciation expense was charged to functions of the primary government as follows:

Governmental Activities:

General Government	<u>\$ 21,269</u>
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Total Depreciation Expense - Governmental Activities	<u><u>\$ 21,269</u></u>
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**Note 4. Insurance**

The Airport Board has insurance coverage through the Fiscal Court.

**Note 5. Prior Period Adjustments**

The prior year net asset ending balance for the governmental activities has been restated for the following:

	<u>Govenmental Activities</u>
Beginning Net Assets Prior Audit	\$ 1,106,429
Accumulated Depreication Adjustment	4,692
Prior Cash Adjustment	(1)
Adjusted Beginning Net Assets June 30, 2009	<u><u>\$ 1,111,120</u></u>

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**TUCKER GUTHRIE AIRPORT BOARD**  
**BUDGETARY COMPARISON SCHEDULES**  
**Required Supplementary Information - Modified Cash Basis**

**For The Year Ended June 30, 2009**



**TUCKER GUTHRIE AIRPORT BOARD**  
**BUDGETARY COMPARISON SCHEDULES**  
**Required Supplementary Information - Modified Cash Basis**

**For The Year Ended June 30, 2009**

<b>GENERAL FUND</b>				
	<b>Budgeted Amounts</b>		<b>Actual Amounts, (Budgetary Basis)</b>	<b>Variance with Final Budget Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
<b>REVENUES</b>				
Intergovernmental Revenue	\$	\$	\$ 79,666	\$ 79,666
Charges for Services			17,861	17,861
Total Revenues			97,527	97,527
<b>EXPENDITURES</b>				
Airports			102,690	(102,690)
Total Expenditures			102,690	(102,690)
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)			(5,163)	(5,163)
Net Changes in Fund Balance			(5,163)	(5,163)
Fund Balance - Beginning (Restated)			13,601	13,601
Fund Balance - Ending	\$ 0	\$ 0	\$ 8,438	\$ 8,438

**TUCKER GUTHRIE AIRPORT BOARD**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**

**June 30, 2009**

**Budgetary Information**

The Airport Board did not submit a budget to the fiscal court.

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**







**CRIT LUALLEN**  
**AUDITOR OF PUBLIC ACCOUNTS**

Honorable Mark Miracle, Tucker Guthrie Airport Board Chairman  
Members of the Tucker Guthrie Airport Board  
Members of the Harlan County Fiscal Court

Report On Internal Control Over Financial Reporting And  
On Compliance And Other Matters Based On An Audit Of Financial Statements  
Performed In Accordance With Government Auditing Standards

We have audited the financial statements of the governmental activities, and major fund of the Tucker Guthrie Airport Board (Airport Board) as of and for the year ended June 30, 2009, which collectively comprise the Airport Board's basic financial statements, as listed in the table of contents and have issued our report thereon dated February 18, 2011. The Airport Board presents its financial statements on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Airport Board's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Airport Board's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Airport Boards internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying comments and recommendations, we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness and other deficiencies that we consider to be significant deficiencies.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying comment and recommendation as 2009-2 to be a material weakness.



Report On Internal Control Over Financial Reporting  
And On Compliance And Other Matters Based On An Audit Of Financial  
Statements Performed In Accordance With Government Auditing Standards  
(Continued)

Internal Control Over Financial Reporting (Continued)

A *significant deficiency* is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying comments and recommendations to be significant deficiencies: 2009-3, 2009-4, 2009-5, and 2009-6.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Airport Board's financial statements as of and for the year ended June 30, 2009, are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under Government Auditing Standards and which is described in the accompanying comments and recommendations as item 2009-1.

The Airport Board Chairman's responses to the findings identified in our audit are included in the schedule of findings and questioned costs. We did not audit the Airport Board Chairman's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the Tucker Guthrie Airport Board, and the Harlan County Fiscal Court, and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen  
Auditor of Public Accounts

February 18, 2011

**TUCKER GUTHRIE AIRPORT BOARD  
COMMENTS AND RECOMMENDATIONS**

**For The Year Ended June 30, 2009**



**TUCKER GUTHRIE AIRPORT BOARD  
COMMENTS AND RECOMMENDATIONS**

**Fiscal Year Ended June 30, 2009**

STATE LAWS AND REGULATIONS

2009-1 The Airport Board Should Comply With The Uniform System of Accounts

The Uniform System of Accounts as set out in Kentucky Revised Statutes requires receipts and disbursements ledgers to be accurate and complete. During our audit we noted receipts and disbursements totaling \$61,391 and \$56,116 respectively were not posted to the ledgers. Adjustments were made to the ledgers to reflect the amounts not posted. Had these adjustments not been made, the financial statements of the Airport Board would have been materially misstated. We recommend the Airport Board comply with the requirements of the Uniform System of Accounts by preparing accurate and complete ledgers.

*Chairman Mark Miracle's Response: Agree.*

INTERNAL CONTROL - MATERIAL WEAKNESS

2009-2 The Airport Board Lacks Adequate Segregation of Duties

As a result of our audit, we noted a lack of segregation of duties exists over all accounting functions. Adequate segregation of duties would prevent the same person from having a significant role in the receipts collection and processing, record-keeping, disbursement processing, report preparation and reconciliations. The Treasurer receives the mail, prepares and deposits the receipts, writes checks, and performs the bank reconciliations. When one employee is solely responsible for the receipt, disbursement, reporting and reconciling process, the risk of misappropriation of assets, inaccurate reporting, and errors increases.

To protect the Airport Board against inaccurate financial reporting, we recommend separating the duties in preparing and depositing receipts, recording transactions, preparing checks, preparing reports and reconciling bank accounts. If these duties cannot be segregated due to limited staff or budget, strong oversight should be provided over the person responsible for these duties. All compensating controls should be documented by the person performing them.

*Chairman Mark Miracle's Response: Agree.*

INTERNAL CONTROL - SIGNIFICANT DEFICIENCIES

2009-3 The Airport Board Should Prepare A Policies And Procedures Manual

We recommend the Airport Board adopt a policies and procedures manual. Such a manual would define Airport Board duties, obligations, and responsibilities. In addition, the manual should address procedures for routine and emergency airport operations and accounting policies and procedures. The manual should be reviewed annually by the current Airport Board and amended as required. The FAA and neighboring airports of similar size could be used as a starting point for establishing a basic manual.

*Chairman Mark Miracle's Response: Agree.*

**TUCKER GUTHRIE AIRPORT BOARD  
COMMENTS AND RECOMMENDATIONS  
Fiscal Year Ended June 30, 200909  
(Continued)**

INTERNAL CONTROL - SIGNIFICANT DEFICIENCIES (Continued)

2009-4 The Airport Board Should Prepare And Submit A Budget To The Fiscal Court For Approval

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During our audit, we noted the Airport Board does not prepare a financial budget. A properly designed internal control system should include a budget prepared by the Airport Board and approved by the Fiscal Court. To strengthen controls over financial transactions, we recommend the Airport Board prepare and submit a yearly budget for receipts and expenditures to the Fiscal Court for approval.

*Chairman Mark Miracle's Response: We do submit a budget to the County Clerk's office.*

2009-5 The Airport Board Should Present An Annual Accounting To The Fiscal Court

The Tucker Guthrie Airport Board is a component unit of the Harlan County Fiscal Court. As such, the Fiscal Court should receive an annual accounting reporting the results of operation and its financial condition at year-end. Such an accounting would consist of the profit and loss statement generated by the Quickbooks accounting software. Annual reporting promotes Fiscal Court oversight and assists in planning and budgeting between the two entities.

*Chairman Mark Miracle's Response: Agree.*

2009-6 Invoices Of The Airport Board Lack Evidence of Proper Approval

Paid invoices tested for compliance showed no evidence of approval or authorization to pay. We suggest all expenditures be properly initiated, authorized and approved prior to actual payment. Such approval for payment should be outside of the initiation, authorization and payment process.

*Chairman Mark Miracle's Response: Agree.*

